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FOCUS - 14 of 120 DOCUMENTS

Workspan

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HEADLINE: Using Survey Statistics to Determine Compensation

BODY:

Market-based job evaluation has become increasingly popular, as many employers look first to the external market to establish and benchmark their own compensation levels. Even those companies that use a formal job content evaluation also will examine external market data as a part of the process - although the information collected is supplemental, rather than primary. In either case, the organization's internal job-worth hierarchy is influenced by the value of jobs as established by the external market.

Market pricing can be defined as a technique for creating a job-worth hierarchy based on the "going rate" for benchmark jobs in the labor market(s) relevant to the organization. Under this method, job content is considered secondary to ensure internal equity after a preliminary hierarchy is established based on market pay levels for benchmark jobs. All other jobs are "slotted" into the hierarchy based on whole job comparison.

Back to Basics is intended to provide entry-level information on issues relevant to compensation, benefits and the work experience. Though factual in nature, nothing herein is to be construed as legal, accounting, actuarial or other such professional advice.

Statistical Definitions

When using salary surveys, most practitioners are looking for the representative or expected value. However, most surveys report the data using various statistics:

Median: Describes the central tendency of the data to minimize the effect of extreme values.

* These extreme values affect the mean. They do not affect the median.

* The median answers the question, "What is the middle salary in a set of ranked salaries?"

Weighted Mean (Average): In salary surveys, one argument for using a weighted mean is that it equally reflects the number of incumbents in a survey.

* If companies participating are truly representative of the market, then the data should reflect the market value of the job.

* The weighted mean answers the question: "On average, what are incumbents in a particular job paid?"

Unweighted Mean: Due to the sampling process, there may be a company with a large amount of incumbent data that is not in the survey.

* The company may not be on the same high or low side of the data that another company with an abundance of data may be.

* The unweighted mean answers the question/On average, what are companies paying a particular job?"

Range: The difference between the high and low values of a data set.

* The main disadvantage of the range is that it is based on only two data points and on the two most extreme values of a data set.

* The range is highly impacted by extreme values.

* It does not tell us anything about the dispersion of the data points that fall in between.

* For large data sets, ranges may not be adequate in indicating variability.

Standard Deviations: Differentiation between "population" and "sample" needs to take place.

* For large data sets (number of data points greater than 30), the difference between the value of a population and a sample standard deviation is less than 2 percent, therefore negligible for most situations.

* For sources with limited data points, standard deviation data can be misleading if not calculated properly.

Percentile (as defined most widely by practitioners): A value that a given percentage of the data is less than.

* For example, targeting salaries at the 60th percentile of industry pay, which means the value of salaries that 60 percent of the companies are less than.

* Be cautious in calculating percentiles. There should be a minimum number of data points in order to give a degree of comfort with the stability of the percentile calculated.

* Different formulas can be used to calculate percentiles. Calculating proportionally between data points is recommended.

* Some algorithms go halfway between data points. Some take the upper point. Some take the lower point.

By knowing these statistical definitions and how to use them, you will be able to better determine the market rate for a given position.

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